LTC Properties, Inc.

Q4 2019 Analyst and Investor Conference Call and Webcast

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CORPORATE PARTICIPANTS

Wendy Simpson - *Chairman, Chief Executive Officer and President*

Pam Kessler - *Chief Financial Officer*

Clint Malin - *Chief Investment Officer*

PRESENTATION

Operator
Good day and welcome to the LTC Properties, Inc. 4Q19 Analyst and Investor Conference Call and Webcast. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your touchtone phone. If you would like to withdraw your question, please press star, then 2. Please note this event is being recorded.

Before management begins its presentation, please know that today's comments, including the question-and-answer session, may include forward-looking statements subject to risks and uncertainties that may cause actual results and events to differ materially. These risks and uncertainties are detailed in LTC Properties' filings with the Securities and Exchange Commission from time to time, including the company's most recent 10-K dated December 31, 2019. LTC undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after the date of this presentation. Please note, this event is being recorded.

I would now like to turn the conference over to Wendy Simpson, CEO and President. Please go ahead.

Wendy Simpson
Thank you, Operator, and good morning. Welcome to LTC's 2019 Fourth Quarter and Year-End Conference Call. Joining me today are Pam Kessler, our Chief Financial Officer, and Clint Malin, our Chief Investment Officer. 2019 was a significant year for LTC, during which we made some tough decisions for change. Those changes have positioned us for future growth. We successfully addressed challenged portfolios. We strengthened our balance sheet by turning out some of our lines of credit, using proceeds from the sale of $100 million of senior unsecured notes. And we moved the company forward through acquisitions with operating partners new to LTC.

I'll spend the next few minutes detailing some of our progress, starting with operators on which we have or had a special focus. Anthem and Thrives are two examples of how we work through issues with portfolios that were not performing to LTC's expectations.

In Anthem's case, we worked to support them through their operational challenges and rationalization of corporate overhead. By the end of 2019, performance in our Anthem portfolio was greatly improved and rent collected from them was approximately 45% higher than the rent they paid us in 2018. We expect to collect $9.9 million of rent from Anthem in 2020, which is a 32% increase.

We had to take a different tack with Thrive. After identifying lease-up softness in 2018 at the six communities they lease from us, we granted Thrive temporary rent relief to give them an opportunity to demonstrate forward progress. When that progress did not materialize, we moved quickly to transition the portfolio to three separate regionally based operators, who we believe are better capitalized and better suited to meet the demands of their local markets. One, Trilogy Management Services, is an operating partner new to LTC. And the other two, Veritas Healthcare Group and Affinity Living Group, represent expanded existing relationships. We are pleased with the transitions and the progress that has been made as these partners implement their own cultures, marketing initiatives, and care programming. Former Thrive assets will yield higher cash rents in 2020 over 2019. Transitioning this portfolio is just one example of how we've used our solid and robust network of regional operating relationships to quickly transition properties and portfolios when needed.

Additionally during the year, we maneuvered through Senior Care Centers' bankruptcy. After the courts allowed Senior Care to assume their LTC lease over our objectives, we received all monies owed to us, including all past-due rent and legal fees. Senior Care continues to get short extensions to emerge as they work to finalize their exit financing. Currently, we expect their emergence from bankruptcy to be sometime in March. We continue to have a plan to transition the portfolio, should the need arise. And we are ready to implement that plan should they not emerge from bankruptcy or fail to comply with terms of the master lease post-emergence. We are carefully monitoring Senior Care's progress and are confident that LTC is prepared for likely contingencies.

In 2019, we successfully executed on our annual capital recyClint program by selling $16 million worth of properties in line with our annual average of $18 million. 2020 sales will be higher than this historical average, based on our progress in divesting the Preferred Care portfolio, which Clint will discuss later, and as we continue to pursue additional capital recyClint opportunities.

Of the $81 million of investments we completed in 2019, all but $7.5 million was with operators new to LTC. Ignite Medical Resorts, Randall Residence, and English Meadows are new additions to our portfolio. Subsequent to year-end, we completed a transaction with HMG Healthcare, adding another strong regional operator. These new operators span both skilled nursing and senior living. On the skilled side, Ignite and HMG are progressive and innovative regional operators whose care models and depth of talent should allow them to successfully manage through all the reimbursement models, like PDPM. On the private-pay side, Randall Residence is a strong regional operator whose excellent operating and development capabilities provide us and their residents with significant value.

Our 2020 growth strategy will focus on continuing to source traditional triple-net leases and new opportunities requiring creative financial solutions, but it bears repeating that the market has not changed meaningfully since our last call. And early indications show that we will have to dig deep to find the kinds of transactions that best benefit our shareholders.

Pricing remains fairly tight. Older properties have unattractive cap rates, and newer properties are priced well above replacement costs. We have never been a fan of growing for growth's sake and have no plans to abandon our stringent underwriting criteria. We will, however, continue to build relationships with regional operators who are interested in growing their businesses and have the resources to do so. We will also continue to use our asset management expertise and strong balance sheet to our advantage by offering flexible and creative structures through which to deploy capital and meet the growing and changing needs of regional operators.

I'll finish with our guidance for 2020. Assuming no additional investment activity, financing or equity issuances, and assuming the sale of the Preferred Care portfolio, FFO is expected to be between $3.01 and $3.03 for the year. Now, I'll turn the line over to Pam.

Pam Kessler
Thank you, Wendy. Total revenues increased $2.9 million for the 2019 fourth quarter from the same period last year. Rental revenues increased $5.4 million, $3.9 million of which is related to property tax revenue recorded in accordance with the new lease accounting guidance that

requires us to record the property tax escrows we collect from our tenants as revenue, with a corresponding expense. Therefore, revenue in the 2019 period includes property tax income, while 2018 does not. The remainder of the increase resulted from acquisitions and completed development projects, Anthem's rent increase, and lease escalation, offset by $869,000 related to lease transitions.

Additionally, please note that we received $2.5 million more rent from Senior Care this quarter than we did in the fourth quarter of 2018. In December 2018, Senior Care failed to pay rent and entered bankruptcy protection. In December 2019, they paid all past-due 2018 rent in addition to December 2019 rent. However, a $2.5 million rent shortfall from Preferred Care in the fourth quarter of 2019 compared with the fourth quarter of 2018 offset the Senior Care increase.

Interest income increased $393,000 in the 2019 fourth quarter due to the funding of additional loan proceeds in expansion and renovation projects, while other income decreased $2.9 million related to the 2018 fourth quarter write-off of earnouts to Senior Lifestyle that were no longer projected to be paid. Income from unconsolidated joint ventures decreased $346,000, due primarily to mezzanine loan payoffs and reduced income from our preferred equity investment with Senior Lifestyle.

NAREIT FFO was $0.81 per diluted share for the 2019 and 2018 fourth quarters. Excluding non-recurring items, which include insurance proceeds of $0.05 in the 2019 fourth quarter, that I'll discuss in a minute, and the earnout write-off of $0.08 in the 2018 fourth quarter, FFO per share was $0.76 in the 2019 period compared to $0.73 last year.

Net income available to common shareholders decreased $18.2 million from the prior year, due to the decrease in other income I just described, an impairment charge related to a preferred equity investment, which Clint will talk about shortly, and a loss on sale in the 2019 period compared with a gain on sale in last year's fourth quarter, partially offset by the increase in rental revenues. During the 2019 fourth quarter, we recognized a $2.1 million gain from insurance proceeds related to a property that had sustained hurricane damage, and rather than rebuild it, we sold it in the fourth quarter. We also sold two additional properties in the fourth quarter--one in Texas and the other in Arizona, for net proceeds of $5.9 million. These sales resulted in a cumulative loss of $4.6 million, or $2.5 million, when netted with the insurance proceeds gain.

Interest expense increased by $363,000 from last year's fourth quarter, due to the sale of $100 million of senior unsecured notes in the 2019 fourth quarter. G&A expense decreased by $260,000 from the 2018 fourth quarter, due to the reimbursement of legal fees from Senior Care. For 2020, we expect quarterly G&A expense to be in the $4.8 to $4.9 million range.

During the 2019 fourth quarter, we invested $19 million in the acquisition of two senior living communities in Michigan. Subsequent to the end of the year, we invested $13.5 million in the acquisition of a skilled nursing center in Texas. The operators associated with these three properties are new to LTC. Clint will discuss these transactions further.

During the fourth quarter, we also funded $6.2 million in development and capital improvement projects on properties we own and $1.4 million under mortgage loans, as well as LTC's $0.19 per share monthly dividend. Dividend payments during the 2019 fourth quarter totaled $22.7 million.

At December 31st, we owned two properties under development, with remaining commitments totaling $18 million. We also have remaining mortgage loan commitments of $3.3 million related to expansions and renovations on four properties in Michigan. As Wendy mentioned, during the fourth quarter of 2019, we termed out $100 million of our line of credit with senior unsecured notes bearing interest at 3.85%, maturing in 2031. Additionally, we borrowed a net of $28.5 million under our line of credit for acquisitions and to fund capital projects and made $19 million of scheduled principal payments under our senior unsecured notes.

Subsequent to the end of the year, we borrowed $18 million under our line of credit for acquisitions and to fund development commitments. Our steadfast focus on maintaining a strong balance sheet gives us the flexibility and capacity we need to fund current and long-term growth initiatives. We currently have approximately $488 million available under our line of credit and $200 million under our ATM, providing LTC with total liquidity of almost $690 million.

Our long-term debt-to-maturity profile remains well matched to our projected free cash flow, helping moderate future refinancing risk, and we have no significant long-term debt maturities over the next five years.

At the end of the fourth quarter, our credit metrics favorably compare to the healthcare REIT industry average, with debt-to-annualized adjusted EBITDA for real estate of 4.6 times and annualized adjusted fixed charge coverage ratio of 4.9 times, and a debt-to-enterprise value of 28%. Now, I'll turn the call over to Clint.

Clint Malin
Thanks, Pam. I have several items to cover, including the status of Preferred Care and our Senior Lifestyle preferred equity investments—also providing an update on Brookdale's lease renewal, properties under development, recent acquisitions, portfolio numbers, and the pipeline.

As we discussed last quarter, after a thorough evaluation of the sale and re-leasing initiative of our skilled nursing portfolio with Preferred Care, we decided a sale was the best option for LTC and our shareholders. Of the 23 properties leased to Preferred Care, one was sold in 2019 and 20 are currently under contract and expected to close before the end of the 2020 first quarter. Net proceeds for the properties currently under contract is expected to be approximately $59 million. We anticipate the sales of the remaining two buildings will be completed in the 2020 second quarter. We will provide additional details on the transactions during the next quarterly earnings call.

Last quarter, I also said that two properties owned by an affiliate of Senior Lifestyles, in which we hold a preferred equity investment on a non-accrual basis, are in the process of being sold. Since that time, a purchase agreement has been executed and due diligence has been completed. We expect the sale to close in April. Based on the sales price under the purchase agreement, LTC has recorded an impairment on its preferred equity investment of approximately $5.5 million, which represents the difference between our investments and the estimated net sales proceeds. The impairment is higher than the range we provided last quarter, primarily due to the buyer's capex requirements and a $500,000 holdback related to an indemnity provision in the purchase agreement. To date, we have received substantially all of the $600,000 in additional income we expected from Senior Lifestyles based on their forecast of net operating income through 2019.

Presently, the only significant lease renewals we have through 2022 are our leases with Brookdale Senior Living, which are expiring at the end of this year. The Brookdale portfolio consists of master leases covering a total of 35 properties in eight states. Currently, Brookdale is in the renewal notice window to exercise its first renewal option, which remains open through approximately June 30th. The renewal term is for ten years, which would commence on January 1, 2021. During the renewal term, the annual rent escalation will continue as during the initial term, which is based on a variable formula averaging approximately 2% per year. Coverage in the portfolio by master lease is healthy, which leads us to believe Brookdale is likely to exercise its renewal option. Besides the Brookdale leases, we have six properties in four leases that expire in the next 24 months and which represent less than 3% of our expected 2020 revenue.

Moving to acquisitions, shortly after the close of the quarter, we announced a $33 million investment in three properties in Michigan and Texas, with operators new to LTC. The two Michigan properties. located in Auburn Hills and Sterling Heights. include a total of 156 assisted living and memory care units and closed right at the end of 2019. We acquired them for $19 million, with an additional capital improvement investment of approximately $2 million to be deployed in the first year of the lease. The lease is a ten-year triple-net master lease with 2% annual rent escalation starting in year two, with four five-year renewal options. The initial cash yield is 7.4%. The communities are being operated by Randall Residence, a Michigan-based family business established in 1975. Randall currently operates 13 independent living, assisted living, and memory care communities in Michigan, Ohio, and Illinois.

The property in Texas, a skilled nursing center with 140 licensed beds, is located in Longview and closed in the beginning of January. We invested $13.5 million in the acquisition. HMG Healthcare is operating the center under a ten-year triple net master lease with 2% annual rent escalation starting in year two, with two five-year renewal options. The initial cash yield is 8.5%. HMG Healthcare was established in 2012 and currently owns and/or operates 28 senior housing and care properties in Texas and Kansas.

In conjunction with the acquisition, HMG Healthcare took over operations of a skilled nursing center in Nacogdoches, Texas, in which the lease we had with another operator matured. Concurrently, HMG Healthcare also assumed operation of a Preferred Care property we own in the same city and commenced closure of it, consolidating operations of these two properties.

The closed nursing center is now being marketed for sale. As a result of these transactions, we have furthered the resolution of our Preferred Care portfolio, helped strengthen HMG Healthcare's position in the Texas market, which also benefits LTC, and invested in a newer building in Longview, with a strong regional operator new to LTC. In both cases, we were able to consummate these deals after building a relationship over time and working together to find the best opportunities for them and for LTC.

In the case of HMG, we have a more-than-10-year relationship with two of their principals, dating back to their prior company affiliation. We are excited to reunite with the principals of HMG and their very capable management team and believe we have the possibilities for additional growth with all of our new operators. Maintaining strong operator relationships is a hallmark of our culture and strategy, and we will continue to foster current and new relationships to source new opportunities.

Before I discuss our portfolio numbers, I would like to update you on one of our recent development projects. Under our real estate joint venture with Fields Senior Living, we are developing a 78-unit assisted living and memory care community in Medford, Oregon. The community is expected to begin welcoming residents in the first part of March. At this time, we'll have four buildings in partnership with Fields.

Moving to our portfolio numbers, Q3 trailing 12-month EBITDARM and EBITDAR coverage, using a 5% management fee, was 1.43 times and 1.21 times, respectively, for our assisted living portfolio and 1.75 times and 1.31 times, respectively, for our skilled nursing portfolio. Remember that, given the sale of the Preferred Care portfolio, they have been excluded from these numbers.

I'll finish up with some comments on our pipeline, which continues to be robust and active. We're excited to see and are evaluating a wide swath of financing opportunities, from construction to broker deals to turnarounds and stabilized properties across the continuum. As we've mentioned, the market remains sloppy, but of course the deals must meet or stringent underwriting criteria and have the opportunity to create or enhance growth for the operating partnerships. Now I'll turn the call back to Wendy for closing remarks.

Wendy Simpson
Thank you, Tim and Clint. In the last half of 2017, it became painfully obvious that Anthem's early success in leasing up new properties was not going to be the new norm. Causes are attributable to their operational challenges, overdevelopment, and other market conditions. Then comes the challenges of the bankruptcies of Preferred Care and Senior Care and the need to reposition former Thrive assets.

In the last two years, LTC has been involved in very active portfolio management, which has strengthened our capabilities to manage our portfolios. Through these challenges, we have maintained our strong balance sheet and safe monthly dividend payouts. With our $690 million of liquidity, I can truly say we are now highly focused on growth, and our biggest challenge is finding that growth to add value to LTC.

We remain committed to broadening portfolio diversification by operator, geography, and property type. We have begun our transition to a much more positive 2020, and I am optimistic about our progress and opportunities as we strive to become a REIT done differently, by remaining creative, flexible, and open to interesting opportunities that others may not appreciate. We look forward to updating you again next quarter.

Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star, then 2. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Jordan Sadler with KeyBanc Capital Markets. Please go ahead.

Jordan Sadler
Thank you and good morning. I wanted to start with Preferred Care. If you could just bridge us from sort of last quarter's sort of estimated total proceeds to where we are now. I didn't follow exactly, given the transaction that took place this quarter, plus what's anticipated to happen in 1Q and 2Q. If you could just do that for us, that would be helpful.

Clint Malin
Jordan, good morning, this is Clint. We didn't give a number last quarter as far as the total proceeds, because the contracts that were still due-diligence period [were] open. So right now, for the 20 buildings that are currently under contract that are expected to close in first quarter is $59 million. With the sale that occurred in the fourth quarter, the net proceeds were approximately $6 million after the holdback. So with those 21 properties, it's approximately $65 million of net proceeds.

Jordan Sadler
And are there an additional two properties?

Clint Malin
There are—sure. No, there's an additional two properties. So, one property is the one I discussed in my prepared remarks that was closed in Nacogdoches, Texas, that's currently being marketed for sale. And there's one remaining property in Arizona that operates as a — it's a Fields nursing building but operates as a specialized behavioral program. And because of that behavioral program, it differed from the other building we had in Arizona. We were initially marketing the buildings together, but we found out during the process, there's probably a different buyer for that other building that remains in Arizona. So we're remarketing that and targeting operators that would be interested specifically in a behavioral program.

Jordan Sadler
And what's the total rent from the remaining two properties, the behavioral and the other one?

Clint Malin
Right now we are negotiating that with Preferred Care, but it should be somewhere similar to what we're receiving right now on a monthly basis, which is approximately $50,000 a month.

Jordan Sadler
Okay.

Wendy Simpson
And, Jordan, we're not trying to get anything off of Nacogdoches, because that's been closed.

Clint Malin
Yes.

Wendy Simpson
We'll get the net proceeds. So there's only one final Preferred building.

Clint Malin
Yes.

Jordan Sadler
I guess I feel like the gross proceeds—I feel like the gross proceeds from the ones that are under contract and that were sold in the fourth quarter, you know, fell a bit short of, I guess, where we were triangulating. And I'm just curious if the market moved or we were we just overly optimistic? Because what's the implied cap rate or the cap rate, essentially relative to the rent that you were receiving, Clint, on the $65 [million]?

Clint Malin
We—I think these are really hard to look at on a cap rate basis. I mean, these —

Clint Malin
— people are buying them [inaudible].

Jordan Sadler
A lease rate basis? Yeah, no, I understand, but I'm just — ultimately, I have to put this in my model, so I'm just trying to understand.

Clint Malin
We can calculate that. I don't have that readily — we can calculate that for you and get that number to you.

Jordan Sadler
Okay. And then maybe on the pipeline, I couldn't—you said robust and active, which it seems like an interesting sort of characterization. I guess also, in context of, I guess, Wendy's opening remarks, where you guys will continue to be, you know, pretty stringent about your underwriting and that the market is still kind of tight and you have got to be creative, so can you maybe sort of dig in there a little bit on what —

Clint Malin
Sure.

Jordan Sadler
— robust —

Clint Malin
Sure, absolutely. We're seeing. I mean, there's still a lot of deal flow, a lot of transactions that we see through the broker community, through relationships, so we are very actively engaged in evaluating and reviewing deals. That deal volume is pretty high. Obviously, we vet through that to qualify the ones we think make sense for us. We are very selective, so we have to look at a lot of transactions to be able to find the ones that we think are appropriate for us, but there still tends to be a lot of activity, and the market is fairly strong. So we're looking at —

Clint Malin
We're looking at skilled, private-pay. Like I said, there's turnaround deals and development deals. We're talking about mezzanine investments to build relationships with operating companies, still. We're very actively engaged in the acquisition process and we are looking at a lot of opportunities.

Jordan Sadler
And on the skilled side, I guess kind of curious where to post the very recent PDP and implementation by these operators. Are you seeing a lot of flow, because people are excited about the 4Q performance and you're underwriting off of that, or how do we sort of read through?

Clint Malin
No, we haven't seen as much—sure. You know, we haven't seen as much opportunity on the skilled nursing side, because a lot of what we've seen on the market are older properties, and, with us, we're not seeing the Preferred Care portfolio that's really not—we've not been as focused on. So we haven't seen as many skilled opportunities that fit our criteria, but we're very supportive of the skilled industry and continue to look at a lot of opportunities and want to continue to invest in skilled nursing. It's just finding the right opportunities.

I think right now to see deal flow in the market from PDPM, that was just implemented, so I think during the course of 2020, we'll be in a better position to see whether the volume of deals on the skilled nursing side that we are interested in come to market.

Jason Sadler
Okay. Thanks for the color.

Clint Malin
Thank you. Appreciate it.

Operator
Our next question comes from Chad Vanacore with Stifel. Please go ahead.

Todd Chao
Hi, good morning. This is Todd Chao for Chad.

Clint Malin
Good morning, Todd.

Todd Chao
Congrats on the early receipt of the catchup payment from Senior [Unintelligible] this quarter. I think that was a positive surprise. Could you remind us if you guys have any other pending or potential payments as for release that you could possibly see for 2020?

Clint Malin
Pertaining to the Senior Care?

Todd Chao
No, just Senior Care by priority to, you know, the operators that you guys transitioned recently. Were any of the prior, restructurings that you did?

Wendy Simpson
No, nothing that hasn't already been disclosed and it's probably in your models.

Todd Chao
Okay.

Wendy Simpson
Nothing that would [inaudible].

Todd Chao
All right.

Wendy Simpson
Unless it doesn't happen. I think in the Thrive transition press release, we gave a detailed three-year projection of the rent we were expecting to receive, and currently all that is on track, so, no, there's nothing that leads us to believe that we won't collect that.

Todd Chao
Yes, since you mentioned Thrive, so it looks like you're going to see some structural cash from release, you know, on the anniversaries with the various operators that took over. Could you guys quantify the impact [unintelligible] for the second half?

Wendy Simpson
Yes, for this year, it's about a $600,000 increase over the prior year.

Todd Chao
Okay, that's helpful.

Wendy Simpson
So

Todd Chao
And—yes. My other question is about the Michigan asset you buy. You know, it looks like you were busy working through the end of the year. Could you — what kind constituted the rationale for buying these, which you believe are the 25-, 23-year-old assets? And I think you guys bought it for $19 million and you're committing an additional $2 million capital improvement year one. What is the current occupancy level and the rent coverage in this transaction, and how should we think about the return on that $2 million CapEx?

Clint Malin
Well, our interest in this—and we've really been, as I mentioned in my prepared remarks, that we've been building a relationship with Randall Residence for a number of years now and looking for opportunities to work on a project with that organization. And this is an opportunity we found in a marketplace that Randall Residence has a presence, so that made a lot of sense to partner with them on this. Although it is a little bit older in regards to the original construction date, the buildings were in fairly good condition. We've committed additional capital into the buildings. The coverage on these buildings on underwriting was about 1.25 times, so we felt very comfortable on the traiing-12 basis for the entry point of this investment, and we think we've got a lot of growth opportunity with Randall Residence. So it made a lot of sense for us to move forward with this transaction.

Todd Chao
Okay, great.

Todd Chao
If I may ask just one more, I think—so Jordan asked about the pipeline in general, but I wanted to follow up on Texas specifically. You made another Senior acquisition in Texas, which was HMG Healthcare. Given the recent discussion on [Unintelligible] and the initial positive reading on PDPM, has anything changed regarding your underwriting standard in that state? Are you seeing, you know, more opportunities, particularly in Texas?

Clint Malin
We've seen—we've been selective in Texas. Again, this goes back to our relationship [unintelligible]. As I mentioned in my comment, we've had a long-standing relationship with the principals of HMG, and we like Randall Residence. We've been working on finding transactions with HMG over a number of years, and we found the right opportunity, and what I discussed in my comments, is the tie-in of the building in our portfolio that we lease to HMG. This just evolved in a conversation with them. And it made a lot of sense for us, you know, geographically not to go just the Longview or probably not an hour, an hour and a half apart, so it's really this just developed in an off-market transaction and it was a great entry point for us and HMG to partner together.

Operator
Our next question comes from Michael Carroll with RBC Capital Markets. Please go ahead.

Jason
Thanks. This is Jason on for Mike. I know you mentioned that a lot of the relationships forged in 2019 were newer relationships to the portfolio, so another underwriting question. Could you just touch on how you underwrite new relationships versus existing as you turn to growth?

Clint Malin
Sure. A lot of the underwriting of new relationships is spending time with those organizations and develop a relationship with the organization, understanding their business models, touring the buildings that they operate in various markets. So it's really an evolution of getting exposure to these companies, and, as I've said just previously in the case of Randall and HMG, it's been over a long period of time of understanding their models, how they staff other buildings, their corporate office, their philosophies. So it's really an engaged process of working with these organizations over time.

Jason
Got it. And then just a quick one on the Preferred Care asset. So what does remarketing that as a behavioral asset do for the evaluation prospects?

Clint Malin
I don't know if it necessarily changes the evaluation of the asset. I mean, the cash flow is the cash flow. I think it just targets a different operative profile than just straight—on more of a skilled basis. It's looking more from a transitional model and not caring for a behavioral population. So, you just have a different operator base, I think, that would focus on this building as opposed to the other assets that we sold.

Jason
Gotcha. Thank you.

Clint Malin
Thank you.

Operator
Our next question comes from John Kim with BMO Capital Markets. Please go ahead.

John Kim
Thank you. Good morning. On your guidance for the year, what are you assuming as far as use of proceeds from the Preferred Care disposition?

Wendy Simpson
We've assumed paying down the line.

John Kim
Okay. Wendy, you mentioned older assets are trading at unattractive cap rates, so I was wondering if you could elaborate what that means as far as ranges of cap rates and whether or not that's before or after CapEx.

Wendy Simpson
The ranges of cap rates are—if we're looking at assets that we would buy in the 7½ and down to the 6½, depending on the type of asset, the cap rates that we're looking at, you know, are much higher than that and could be in the 10s or 12s. So, we're just—we just can't even spend money at that rate.

John Kim
Ten to 12—is this for AL or SNFs?

Wendy Simpson
For SNFs. SNFs are the ones that we're finding are the older ones. For ALs, they're probably around 8 or 9, and because of the recent developments in the private-pay sector, if you have an older asset, unless you can really put money in as we're doing in Michigan to improve the property and that there's not a lot of new product in the marketplace, you just can't underwrite that successfully. And we have done a lot of looking at properties that we just couldn't get to the price that the broker or the seller was trying to get. So there's a lot of older private-pay, or we saw a lot of older private-pay in 2019. I haven't been looking at older private-pay in 2020 yet, but—and they were, you know, one or two properties that were being sold at that level.

John Kim
Okay. I think Clint mentioned that you believe the likely outcome of the Brookdale lease expiration this year would be that it would that it would renew. But I was wondering, have they been in contact with you or have you been negotiating with them at all as far as changing any of the terms as far as annual escalators or CapEx requirements?

Clint Malin
I wouldn't say necessarily negotiating with them, but we've been actively engaged with Brookdale. We've had conversations with them in regard to their interest in looking at us financing capital improvements into the buildings. Brookdale's been active in that—in their own right, in spending their own capital into the buildings — that we've let them know that as we typically that we have been very proactive with our operators in looking at reinvesting in our buildings and making capital available to them. And we have approached Brookdale about that, and it's something they are evaluating, whether they want to look at us financing any improvements or they would fund it on their own. So like I say, we've had a very active and

open discussion and communication with Brookdale and really appreciate the relationship with them.

John Kim
And what was the EBITDAR coverage of that portfolio?

Clint Malin
You know, we haven't given the coverage specific on that portfolio. As I mentioned in my prepared remarks, it's a very healthy coverage by master lease, which leads us to believe that they probably are likely to renew the properties.

John Kim
I see. Okay. Thank you.

Clint Malin
Thank you.

Operator
Our next question comes from Rich Anderson with SMBC. Please go ahead.

Rich Anderson
Thanks. Good morning, everybody.

Wendy Simpson
Good morning, Rich.

Rich Anderson
So on just a couple of questions here. First, from a modeling perspective, you mentioned with Senior Care, you got all your past-due rents. So, is there an adjustment, I assume, at a—to recreate the run rate starting in the first quarter, like taking sort of 2 million bucks out and start fresh? Is that the right way to handle it?

Wendy Simpson
Off revenue, take $1.2 million, because that was the rent. The rest was reimbursement of —

Rich Anderson
Okay.

Wendy Simpson
But off your revenue run rate, take $1.2 [million] off, because I don't think we're going to get 13 months in 2020.

Rich Anderson
Okay, fair enough. Now, one of the things you talked about is that Senior Care is going through their process, and you're hopeful for, you know, obviously a good outcome for LTC, and you're prepared should something sort of run amiss with them one way or another, with another operator. So I'm extrapolating that game plan to Brookdale, which you said you expect them to renew, but what if they don't? I mean, do you have a contingency plan in place at all? Have you thought about what you might do with those assets if they choose not to? Just curious if you're equally prepared?

Clint Malin
Absolutely. We've definitely thought through that, and the coverage is strong enough where I think if they elected not to renew the portfolio, that would be most likely a financial pick-up for us.

Rich Anderson
Okay. Good enough. And then last for me. A lot of your peers talk about pretty thin coverage on their net lease assets in the senior housing space. It's high on the mind of a lot of investors. You give your aggregate coverage numbers, and you guys generally have a good story to tell there, but I am wondering if you have any sort of meaningfully sized situations where you are approaching one or lower that might be in need of some sort of reset, or is that pretty much, now that you've been through all these operator situations, are you pretty much clear of that now? I'm curious where you are, where you stand on that issue.

Clint Malin
Sure. I guess, Rich, I would characterize it such as this. On the skilled side, we have only two properties, which are just slightly under one times EBITDARM coverage on the skilled side. And when you look at our total revenue, it's probably right at maybe 1% of total revenue for those two buildings. That's on the skilled side.

And then on the private-pay side, they don't have anything below one times on EBITDARM coverage. So I guess that's how I'd fund your question.

Rich Anderson
Okay. Perfect. Thanks very much.

Clint Malin
All right. Thank you.

Operator
Our next question comes from Daniel Bernstein with Capital One. Please go ahead.

Daniel Bernstein
Hi, good morning.

Wendy Simpson
Good morning, Dan.

Daniel Bernstein
So on the acquisitions side, are you finding—and maybe this is both for [unintelligible] that there's significant deferred CapEx with some of these assets that are a hindrance to you but actually buying the assets. I'm just trying to understand kind of like the preponderance of that out there in the marketplace.

Clint Malin
Sure, absolutely. That's definitely our situation where we are seeing older properties that need capital, but the challenging part is looking at how much capital needs to be deployed and what's the asking price for the asset. They've got to be able to—we have to buy them at the right price

point to be able to deploy the capital and then to make them competitive and viable. So we are seeing situations where there is this capital need, but that affects what our underwriting is and what we are going-in price can be to make that investment profitable where we can have a coverage for our operator to successfully operate the property.

Daniel Bernstein
And would it be correct to say that many sellers are not pricing in that deferred CapEx in their asking price?

Clint Malin
Absolutely.

Daniel Bernstein
Okay. And then in terms of development, I mean, you obviously did a significant amount of development at Anthem, Thrive. When we look at the landscape out there, starts are coming down pretty significantly. It looks like absorption is starting to exceed supply growth. Would you consider ramping up development again in seniors' housing?

Clin Malin
At this point, I don't think so. We've brought down that development, Dan.

Wendy Simpson
But we didn't call it ramping up.

Clint Malin
Listen, we've looked selectively —

Daniel Bernstein
I know. A couple properties, a couple projects a year, three or four projects.

Wendy Simpson
Right. Right.

Clint Malin
Yes, absolutely, but, I mean, a great example of this, Dan, you know, is not necessarily on the project lease side, but looking at opportunities where we can develop. Look at the opportunity we had with Ignite Medical Resorts coming in and being able to buy and partner with them on a new skilled nursing investment and in conjunction with that, development of a new property, and building that relationship with Ignite on the private—on the Fields side gives us opportunity to look at development as they grow out their platform, and we hope to be able to partner with them on future development.

So, you may see development on the skilled side with organizations like Ignite, and—but on the private-pay side, it's going to be select and opportunistic. I've mentioned the project we have with Fields Senior Living that's coming online in Medford, Oregon. We did that development in conjunction with an independent living community we bought and developed that's adjacent to that project. So I think we'll be very selective and opportunistic in how we look at development.

Daniel Bernstein
And then one last question. It seems to be the flavor of the day in senior apartments, and it's in the senior housing news rags, Towers obviously doing something there and others. So have

you looked at senior apartments and maybe kind of maybe any initial thoughts on that product type? Would you be interested in it?

Clint Malin
We haven't spent a lot of time looking at that, but we actually do have one project in Wichita, Kansas, that we financed construction on with an operating partner of ours, Oxford Senior Living, and so we do have—that's on a campus with an assisted living memory care community that we financed with them in the same market. But on a broad basis, we haven't spent a lot of time, but it's something we would look at. And as far as the underwriting, and maybe there's opportunities for us to look into that space.

Daniel Bernstein
Okay. All right. That's all I had. Thank you.

Clint Malin
All right. Thank you.

Operator
Again, if you would like to ask a question, please press star, then 1.

Our next question comes from Connor Siversky with Berenberg. Please go ahead.

Connor Siversky
Good morning, everyone. Just a little more on a question asked earlier in terms of rent coverage in your tenant roster. Are you seeing any divergence among your tenants on rent coverage, and is that—is there any rhyme or reason to any specific markets where that's happening or just any color there?

Clint Malin
I would say that we haven't seen a lot of divergence with any specific operator. We are seeing some increases in certain markets with a couple of operators we have properties within the state of New Mexico. We've seen some change in coverage with an 8% increase in the Medicaid rate in that state, plus the implementation of a provider tax that we've seen — you know, some large changes. They're still being phased in on —

Wendy Simpson
Not reflected in ….

Clint Main
Not yet reflect fully reflected into our coverage metrics. That's one example where we're seeing improvements specific to a given state.

Connor Siversky
And then it was mentioned before, some of these assets you recently acquired are a couple decades old. I mean, do you think the age of these assets really affects occupancy trends, or is it more about the operator in that sense?

Clint Malin
It's more about the operator, and I look at that, and, you know, coming in and buying it at the right price and then investing the appropriate capital to make the buildings competitive. You know, an example being in the Michigan properties, the price point of where we originally

started that discussion on the acquisition price. And through our due diligence process, I mean, that price did come down a number of times as we did underwriting, looked at the needs, and there was a little bit of decline in cash flows when we were going through the acquisition process that we feel that through diligence, the price reductions that we were able to achieve in that transaction were attractive for us and our operators, that really afforded our coverage that we think provides a stabilized operation for the operator and the additional capital. So I think we'll completely make those buildings competitive for our operator.

Connor Siversky
Okay. So, I mean, and just one last one for me. So, looking forward in terms of acquisitions, do you think some of these older assets might make for attractive opportunities in the next couple of years, or would you still rather target maybe newer—

Clint Malin
Absolutely.

Connor Siversky
Newer — okay.

Clint Malin
Yes, absolutely. It goes back to the operator, the markets, the entry point on the—on pricing and the capital we can put into the buildings. We would absolutely look at older assets that need additional capital, but it's got to be the right overall investment from the initial investment through capex that makes the buildings sustainable and doesn't overburden the property with too much rent.

Connor Siversky
Okay. That's all for me. Thank you very much.

Clint Malin
It goes back—you know, it goes back to basics. Thank you very much.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Wendy Simpson for any closing remarks.

CONCLUSION

Wendy Simpson
Thank you, Operator. I'd just like to say we totally understand your focus on proceeds that we will be getting or have gotten from Preferred Care, and we'll give you more details in the next conference call we have. But to note, when we give you proceeds, we're giving you net proceeds, which include some holdback. You must understand that the buyers are buying this without Preferred giving them any indemnification, so we have implemented, in certain instances, a holdback amount that stays in escrow, which we fully expect quite a bit of it will be returned to us. But our proceeds that we talk about are net of that holdback period or holdback amount. So there is a couple million dollars of additional possible net proceeds, and I just wanted to be clear about that.

Pam Kessler
And there's also the net proceeds from the joint venture in that [inaudible].

Wendy Simpson
Correct. Yes, there are net proceeds from that —

Pam Kessler
[Inaudible] be added together.

Wendy Simpson
Yes, the holdbacks, but in any case, I appreciate all the time you've spent with us and certainly appreciate all your questions. We look forward to talking to you again after the first quarter. Thank you and have a great weekend.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.